

DISCUSSION DRAFT

**Housing Needs Study
For the City of Bozeman, Montana**

Version of Jan. 15, 2012

By

Werwath Associates

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1. Executive Summary

The Economy, Demographics and Housing Market

Bozeman experienced exceptionally rapid growth in employment, households and its housing stock during the first decade of the 2000s, even considering a serious economic decline that began in 2007. The number of Bozeman residents at work declined from 2007-2010 but stabilized in 2011, although the local unemployment rate, at 6.1%, is near its 10-year peak.

Despite a decline in home prices and rents, the number of Bozeman households paying over 30% of their incomes for housing increased substantially during the 2000s—placing 28% of homeowners and 49% of renters in this category. Cost burden data is the most reliable indicator of gaps between what housing costs and what Bozeman households can afford. The numbers of homeless people and special populations needing affordable housing also increased.

Employment statistics and interviews with several major employers did not indicate a future trend in employment levels, either upward or downward. For this reason, this study does not include projections of future growth in employment, households and needs for affordable housing. Instead, estimates of affordable needs and gaps in the housing stock were based on current market and demographic conditions.

Reflecting the economic downturn and reduced overall demand for housing, housing starts have been reduced in 2008 through 2011 to levels that are about half that of 2000-2001, and less than a quarter of the starts in 2004 and 2005. Sales of homes reported by the Gallatin Association of Realtors declined at a slower rate, with an estimated 594 sales in 2011, compared to 828 in 2006, the last year of the real estate boom—a decline of 29%. The median sale price of all types of homes declined 20%, from \$257,875 in 2006 to \$207,000 during 2011.

A substantial number of homes are currently on the market in price ranges considered “affordable” and not available just a few years ago. Forty eight one- and two-bedroom homes were listed at prices averaging just under \$100,000, while 16 three-bedroom condos were listed at a median price of \$129,900. Included in these tallies are 22 new condominium units either acquired by or built by the Human Resource Development Council (HRDC) with federal subsidies.

Distress sales of properties in foreclosure have added to the inventory of for-sale homes and undoubtedly reduced the median sale price, but this trend abated in 2011. As of October 2011, there were 129 homes in Bozeman estimated to be in stages of the foreclosure process of which about two-fifths are estimated to be valued at \$200,000 or less. Monthly trustee foreclosure sales peaked at 38 in January 2010 and averaged 25 per month countywide since then.

A sample survey of low- and moderately-priced apartment properties indicated that average rents for two-bedroom apartments in Bozeman are currently \$738, with average three-bedroom rents much higher, at \$977. The survey found only 15 vacant units out of 796 apartments surveyed, 15 of which were newly acquired by a property management agency, indicating an exceptionally tight market for apartment rentals. A survey of selected mobile home parks in Bozeman indicated an average rent of \$530, with only four vacancies out of 106 rental homes surveyed, most of them three-bedroom models. Mobile homes are thus an important source of very affordable rental housing. Some mobile home parks located just outside Bozeman are endangered by failing well and septic systems.

Regulations Affecting Affordable Housing

Due to the substantial decline in residential construction, the drop in home prices, and concerns with technical complexities as well as administrative costs, Bozeman's Workforce Housing Ordinance dating from 2007 was suspended for one year in September 2011, having resulted in no production of affordably-priced homes.

Selected homebuilders who were interviewed pointed to Bozeman's impact fees as a major factor in the costs of constructing homes. The fees average about \$11,000 per home. The Workforce Housing Ordinance had provisions for full or partial reimbursement or deferral of these fees for income- and price-restricted homes, but no such provisions are now in effect.

Concerns were also expressed about newer subdivisions that include "restricted-size lots"—lots sized less than 5,000 square feet that were intended to encourage the construction of smaller homes that would remain relatively more affordable. The requirements are now suspended, but apply to approximately 14 approved subdivisions. Several builders stated that it is difficult, given current market conditions, to sell smaller, low-cost homes on small lots, and the dispersal of these small lots throughout subdivisions makes it more difficult to market higher-priced homes.

Affordable Housing Activities

HRDC is a major provider of affordable housing and related services in Bozeman. In 2011, it provided pre-purchase counseling to 116 Bozeman clients and built 36 of the affordable condos referred to above, adding to 20 "land trust" homes built in the 1990s. HRDC made one down payment assistance loan in 2011 in Bozeman, apart from assistance to buyers of the condos that HRDC developed. Habitat for Humanity has built 61 affordable homes countywide. HRDC, Family Promise and other organizations currently operate 49 emergency shelter beds, along with facilities and rent subsidies for 67 families and individuals in transitional and supportive housing.

No affordable, subsidized rental housing has been built in Bozeman since 2005, to add to the current stock of 368 apartments for low-income families and 161 apartments for low-income seniors. Federal rent subsidies are provided to 273 very low income households and individuals.

Affordable Housing Price Points

The needs study indicated a need for more rental housing priced to be affordable to households within incomes at or below 40% of area median income (for example, under \$600 for a two-bedroom unit), as well as a general need for additions to the rental stock.

The study indicated affordability gaps for homebuyers with incomes at or below 65% of area median income, translating to prices at or below \$152,000 for a three-bedroom home. The gaps become substantial for homebuyers with incomes at or below 50% of area median income. Due to market price reductions and the supply created by HRDC, this need is currently satisfied for homebuyers with incomes above 65% AMI (and some below that level) but a future supply will be needed in this category. If home prices start increasing, mortgage assistance will be needed and/or regulatory changes or incentives to builders to provide more homes at the low end of the for-sale housing market.

Indicated Programmatic and Regulatory Initiatives

The housing needs described in this report indicate the following potential programmatic priorities for nonprofits, for-profit developers and the City. These are not in priority order, and are suggested for consideration during the process of drafting a new affordable housing plan.

- Subsidized construction of for-sale housing. Projects sponsored by nonprofits should continue, but at a measured pace until existing inventories are absorbed.
- Assistance for purchasing lower-priced market-rate homes. Reduced home prices create a major opportunity to step up pre-purchase counseling and down payment assistance programs.
- Construction of new rental housing. Development of rental housing using the federal Low Income Housing Tax Credit (LIHTC) program should be a high priority. The City might consider providing incentives and setting formal criteria for the types of LIHTC projects that it endorses for federal subsidies.
- Construction of housing for special populations. Given the unmet needs of special populations for affordable and supportive housing options, construction or acquisition and rehab of more residential properties should be a priority, to serve very low-income seniors, disabled people, recently homeless people and those with other special needs.
- Workforce Housing Ordinance and possible regulatory changes. The needs study indicates that the City's Workforce Housing Ordinance should not be reinstated at this time due to the softness of the real estate market, technical issues with the ordinance and administrative costs. Reinstatement of a revised ordinance could be considered as the housing market strengthens. In

the meantime, the City may wish to consider enacting a set of incentives for builders to construct affordable, for-sale homes and rental units. Some incentives could simply provide builders with more flexibility in responding to market demand—for example, allowing construction of detached homes on small but adequately-sized lots.

- Re-platting subdivisions. If existing subdivisions are re-platted, as some builders propose, and the City agrees, some incentives or requirements for construction of affordable homes and rental units could be retained. Donation of house lots or sub-tracts for affordable home or rental construction is among the options to be considered.
- Impact fees. The City might consider allowing, in some form, deferrals or reimbursement of impact fees as an additional incentive to produced discount-priced housing for lower-income buyers, whether or not the Workforce Housing Ordinance is reinstated.
- Possible actions regarding mobile home parks. The City may wish to consider encouraging older mobile home parks just outside Bozeman, with failing septic systems and wells, to connect to the City's water and sewer systems, in exchange for agreements to maintain certain levels of affordability. Nonprofits might consider a concerted program of helping low-income families and/or landlords replace, repair and weatherize older, substandard mobile homes.

2. Demographic Profile and Trends

Household and Population Trends

Bozeman’s population grew by 36% in the 2000s, from 27,509 to 37,280—a rate of growth four times faster than the nation as a whole. Of the seven Montana cities with 2010 populations greater than 10,000, only Kalispell grew faster, at a 40% rate, while the populations of the five others combined grew only 9%.

The number of households in Bozeman grew faster than the population in the 2000s, from 10,877 to 15,775—an exceptionally high 45% rate of growth—adding nearly 5,000 households. The disparity between population and household growth is somewhat due to a shrinking of household sizes. The average size of an owner-occupied household went from 2.43 to 2.32, while the average size of renter households shrunk from 2.13 to 2.06.

Figure 1. Population, Households and Housing Units in Bozeman and Gallatin County, 2010

	<u>Bozeman (City)</u>	<u>County</u>
Population	37,280	89,513
Households	15,775	36,550
Total housing units	17,464	42,289
Seasonal housing units	337	2,794
Occupied year-around housing units	15,775	36,550
Percentage vacant, year-around	7.7	7.0
Percent renter occupied	56.5	39.0
Percent owner occupied	43.5	61.0

Source: U.S. Census Bureau, 2010 - Demographic Profile Data

During the same period, the building boom of the early and mid-2000s led to an increase of housing supply that outpaced household growth. The number of housing units increased from 11,577 to 17,368, a 50% increase. If the number of housing units had increased at the slower rate of household growth, there would have been 812 fewer housing units in 2010. By implication, Bozeman was overbuilt by that number of housing units. While seasonal, resort housing may have contributed to a surplus in the county as a whole, the number of seasonal housing units in Bozeman (337 according to the 2010 Census) does not appear to be a major factor.

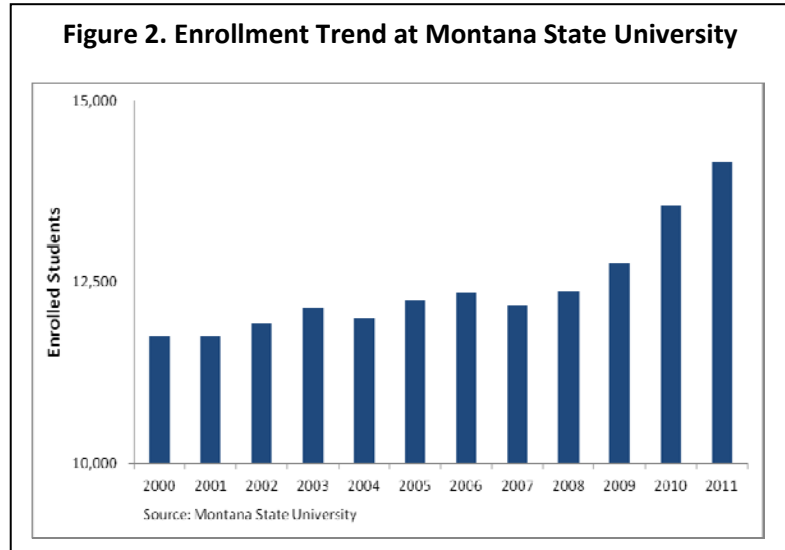
There are no reliable statistics on year-to-year population changes in Bozeman, but it is likely that the population and households declined somewhat from 2008 to 2011 due to the effects of the national recession, including a severe slowdown of real estate development in Bozeman.¹

Offsetting the likely decline in full-time residents during the worst years of the recession was a dramatic increase in the number of students enrolled at Montana State University. Enrollment has grown by

¹ The Census Bureau estimated that Bozeman’s population was 39,282 as of July, 2009, but only six months later the actual census count was 2,002 lower. This casts doubt on the reliability of the Bureau’s estimates of year-to-year population growth in the 2000s.

1,983 students just since 2007, a 16% increase. MSU has a current enrollment of 14,153, including 12,188 undergraduates and 1,965 graduate students. See Figure 2, below.

Bozeman has a relatively small minority population. According to the 2010 Census, the City's population includes 0.5% African Americans, 1.1% Native Americans, 1.9% Asians and 2.9% Hispanics/Latinos. The only significant change in the minority population over the previous decade was an increase in the Hispanic/Latino population from 438 to 1,096.



Age Profile of Population Little Changed

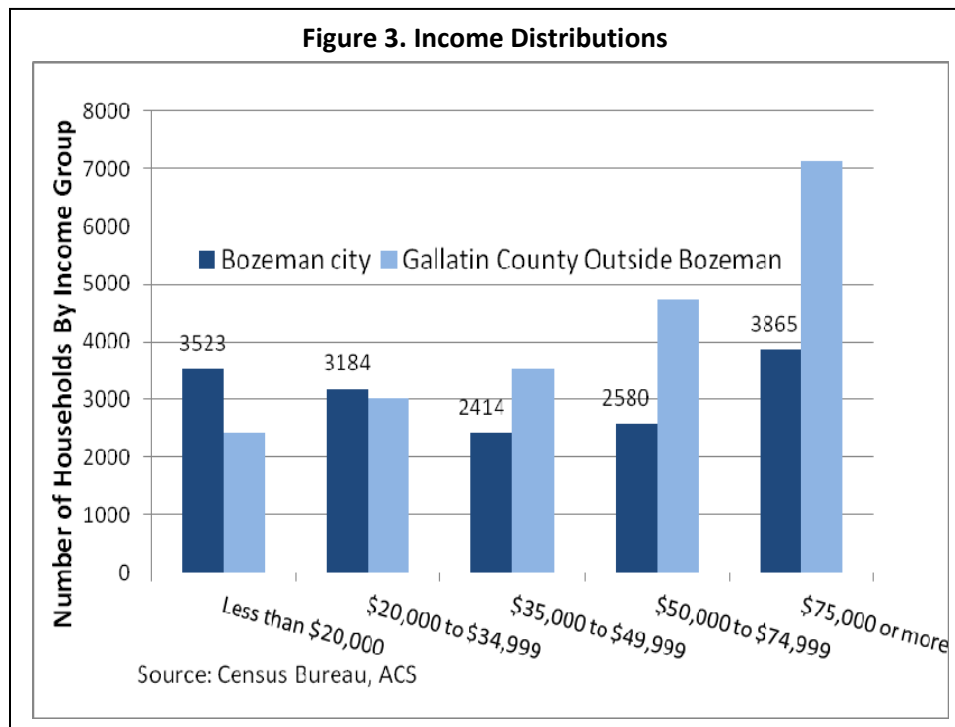
During the 2000s, Bozeman did not experience a notable change in the age profile of its population. Unlike many other communities around the country, Bozeman did not experience significant aging of its population during that period. The number of people aged 62 or older only edged up from 9% to 9.9% of the population. One builder who was interviewed noted a slight increase in retirees relocating to Bozeman to take advantage of the recent reduction in home prices, but the evidence is not strong enough to confirm a

future trend. The portion of the population under age 18 was virtually unchanged—dropping three-tenths of a percentage point.

Income Distributions

Compared to the county outside Bozeman, households in Bozeman have much lower incomes.

See Figure 3 above. As defined by the U.S. Department of



Housing and Urban Development (HUD), about 58% of Bozeman households are considered “low-income”—meaning that they have incomes at or below 80% of the area median income (AMI) as calculated by HUD.

On the surface, this is a logical inconsistency, because exactly 50% of Bozeman households should have incomes below the median. But Census data do not align with HUD income definitions. HUD’s “area” for calculating median income is larger than Bozeman and different methodology is used. See Figure 4. The Census tally of households with less than \$20,000 annual income closely equates to HUD’s “extremely low income” group, defined by HUD as those having incomes at or below 30% of area median income. This group comprises 23% of Bozeman’s households.

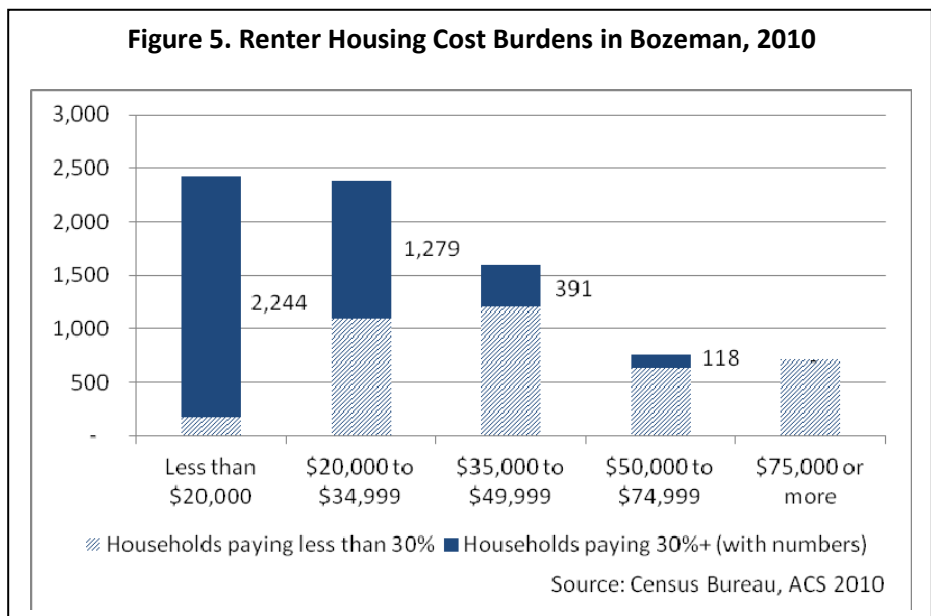
Figure 4. Census and HUD Household Income Benchmarks

Bozeman median income, 2010 Census	\$41,705
Gallatin County median income, 2010 Census	\$50,239
HUD median income, family of three, 2011	\$60,100
HUD 80% of AMI level, family of three, 2011	\$48,050
HUD 50% of AMI level, family of three, 2011	\$30,050
HUD 30% of AMI level, family of three, 2011	\$18,000

It is important to note that HUD’s area median income (AMI) standard for Gallatin County is higher than the median household income for both Bozeman and Gallatin County as reported in the 2010 Census. The HUD AMI standard is important to consider for planning purposes because 80% of area median income is considered “low-income.” This is the upper income limit used to determine eligibility of homebuyers for mortgage assistance programs funded by HUD. The HUD AMI level for a three-person household is the closest comparison to the Census median incomes, since the average family size in Gallatin County is about 2.9 persons. Comparative income levels are listed in Figure 4.

Housing Cost Burdens

The largest single indicator of the lack of housing affordability is the number of households paying over 30% of their incomes for housing costs—a widely used standard of rental housing affordability, although 33% to 35% has become an acceptable standard for homeowners. This study uses the 30%-of-income standard because it is

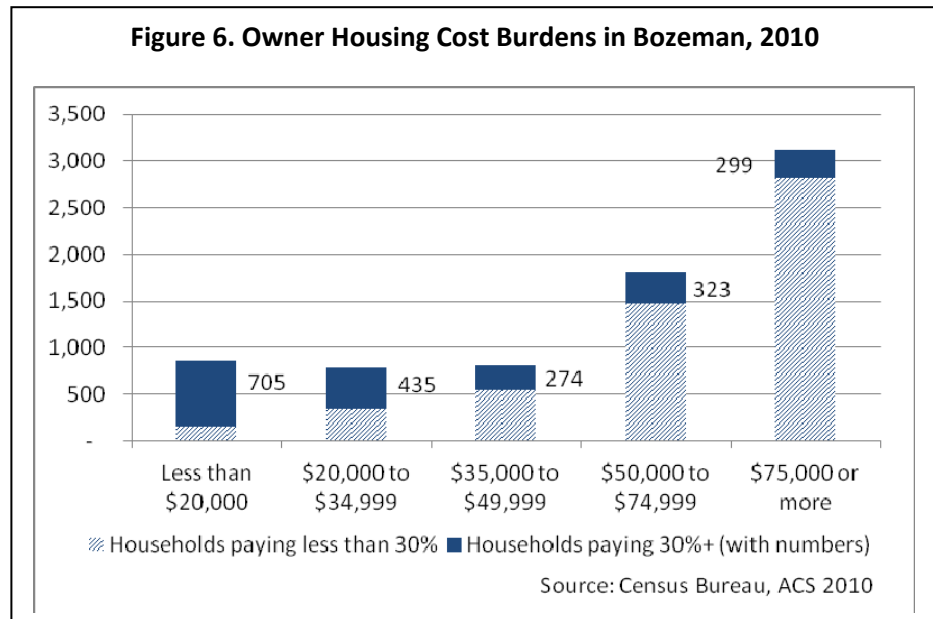


broadly accepted and available in comparative tables for 2000 and 2010 Census data.

A total of 6,068, or 39%, of households in Bozeman paid over 30% of their incomes for housing costs, according to the 2010 Census. Of these, about two-thirds—or 4,032 households—were renters. Nearly half of all renter households in Bozeman were cost burdened, compared to 28% of homeowners.

Cost burdens are concentrated among renters and homeowners with incomes under \$35,000—who make up nearly three-quarters of all households paying over 30% of income for housing. See Figures 5 and 6.

Despite reductions in housing costs starting in 2007, 2,200 more Bozeman households were cost burdened in 2010 as compared to 2000. Rents and sale prices had declined when the 2010 Census was conducted, but not enough to offset a decade-long trend in housing cost increases outstripping income growth.



As indicated by Figure 7, renters as a whole are nearly two times more likely as owners to be cost burdened. But because home prices ran up faster than rents in the 2000s, cost burdens on owners increased faster.

Figure 7. Owner-Renter Household Growth and Cost Burden Changes in Bozeman, 2000 to 2010

	2000	2010	% Change
Owner-occupied housing units	4,663	6,865	47%
Renter-occupied housing units	6,214	8,910	43%
Percentage of owners paying over 30%	23.2%	27.6%	19%
Percentage of renters paying over 30%	44.4%	49.3%	11%

Sources: 2000 and 2010 Census and 2010 American Community Survey

Reductions in housing prices mainly affect “turnover” homes and rental units. As a result, most of Bozeman’s homeowners and renters are still locked into housing costs that were set during the boom years.

Special Needs Populations

For this study, impressions of the needs of special populations were surveyed through interviews with service providers and surveys and analysis of Census data. In almost all sectors of housing services, providers report a higher need than can be served by current resources. Homelessness is on the rise, especially among families. There remains a high need for transitional housing, which is essential for transitioning people out of emergency shelter. A lack of affordable rental housing development has led to a high need in this area, particularly for development near transportation and jobs.

Determining needs for shelter and services for homeless people can be a difficult proposition due to their transiency and a general lack of visibility. As part of the statewide Continuum of Care network, homeless counts are conducted annually by the Greater Gallatin Homeless Action Committee during the last week in January. An analysis of these numbers shows relatively high variations over the last six years, although certain trends are clear. Most striking is an increase in the number of homeless families captured in the survey with the total number of homeless family members (as opposed to homeless individuals) nearly doubling from 43 in 2006 to 78 in 2011. The total number of homeless people captured in the count has increased from 121 in 2006 to 181 in 2011.

Homeless service providers report several patterns among homeless family populations. These include high levels of substance abuse, mental illness and chronic medical problems, all of which contribute in varying degree to homelessness. In addition, Family Promise of Gallatin Valley works exclusively with homeless families and reports that nearly 80% of clients have histories of abuse or trauma.

Seasonal variability in demand is evident for shelters serving victims of domestic violence, who in addition to seeing increased demand in the summer, also report a considerable number of women seeking to relocate to the Bozeman area from outside the state to escape a violent relationship. Haven domestic violence shelter reported a 23% increase in the total number of shelter nights year-to-year and that in general, stays are getting longer.

Similar high demand was reported for other special needs categories. Western Montana Mental Health Center (WMMHC) reported that 38 individuals applied for their most recent six-unit transitional housing development. This demand was internal to the organization and did not include people who are not currently receiving services through WMMHC. Because this facility only includes studio units, this number also did not include any families currently in need.

A high need for transitional housing was also reported by both Haven domestic violence shelter and Family Promise. Between Family Promise, Haven and WMMHC it was reported that there was an immediate need for at least 20 units of transitional housing, perhaps as many as 35 units to meet current demand. Demand was reported to be especially high for family units and special units for families with disabled children. One observation from organizations serving the general homeless populations was that there is currently a high level of “specialization” among existing transitional units, which creates a shortage of units available for homeless people without specialized problems.

3. The Workforce, Economy and Overall Housing Demand

Employment Trends

Gallatin County experienced significant gains in employment from 2000 to 2007, driving the major increase in the number of households and helping to fuel a real estate development and construction boom. Then, from 2008 through 2010, there was a steep drop in the number of employed people in the county. Still, at the end of the last decade, there were 5,718 more persons employed countywide than 11 years previously, according to the U.S. Bureau of Labor Statistics (BLS).

Bozeman residents accounted for virtually all of the net employment gains in the 2000s. According to the U.S. Census, the number of employed persons in the City rose by 5,014 between 2000 and 2010, a 32% increase. It should be noted that the Census and BLS use different data-gathering methods.

This begs the question of how the number of households in Bozeman increased by 45% in the 2000s, while the City's workforce increased by only 32% and the population increased by only 36%.

Typically, the three trends track more closely together. Declines in employment from 2007-2010 explain some of the difference—people became unemployed or withdrew of the workforce but for the most part have apparently stayed in the community. More of the disparity is explained by shrinking sizes of households—household formation (and housing demand) is increasing faster than population growth. In addition, increased enrollments at MSU, with more students living off-campus but not working, is undoubtedly another factor that drove household growth in Bozeman faster than employment growth. Between 2000 and 2010, MSU enrollment grew by 1,798.

What does this mean for future demand for housing, housing costs and affordability in Bozeman? Naturally, strong household growth driven by underlying employment growth tends to drive up housing costs—as occurred in Bozeman up to 2007—while slow growth or declines in number of households translates to reduced demand for housing and tends to stabilize or reduce housing costs. Figure 8 summarizes the major factors that will influence future housing demand—of which employment levels are the most influential and unpredictable.

The dramatic drop in employment from 2007-2010 very likely led some households to leave Bozeman—although there are no reliable statistics to confirm

Figure 8. Market Factors Likely to Affect Future Housing Demand in Bozeman

Increased Demand

- Continued increase in employment
- Continued shrinking of household sizes
- Continued increases in MSU enrollment
- Uptick in retirees locating here

Reduced or Static Demand

- Return to employment losses/slow growth
- Out-migration due to employment issues
- Continued low growth: retiree households

this. Several residential builders who were interviewed estimated that about half of the construction companies went out of business during the recession, leading to an exodus of construction workers to other parts of the country, in particular to North Dakota’s booming oil and gas fields.

Reliable year-to-year employment data is available for Gallatin County but not for Bozeman. Countywide, the number of persons employed increased from 38,817 in October 2000 to 44,536 in October 2011, but not in a steady trend. Between 2000 and 2007, the number of employed people increased by 10,560, or 27%. Then, from 2007 to 2010, the number declined by 4,896—see Figure 9. In 2011, the decline ended and there was a slight increase of 55 more people employed.² Employment statistics are as of October of each year.

The countywide unemployment rate as of October 2011 was 6.1%, having reached a 12-year peak of 7.4% in January 2011. While the county’s unemployment rate is lower than the national rate of 8.6%, it is still historically high.

Loss of employment—as well as the threat of losing jobs—clearly contributed to a dramatic fall-off in demand for homes and rental units in recent years. While there is no doubt pent-up demand for bigger, better or more affordable housing, there is no basis at this time for predicting future demand based on employment and household growth. Trends in housing supply and demand are addressed in Section 4 below.

Figure 9. Employment Trend in Gallatin County, 2000-11

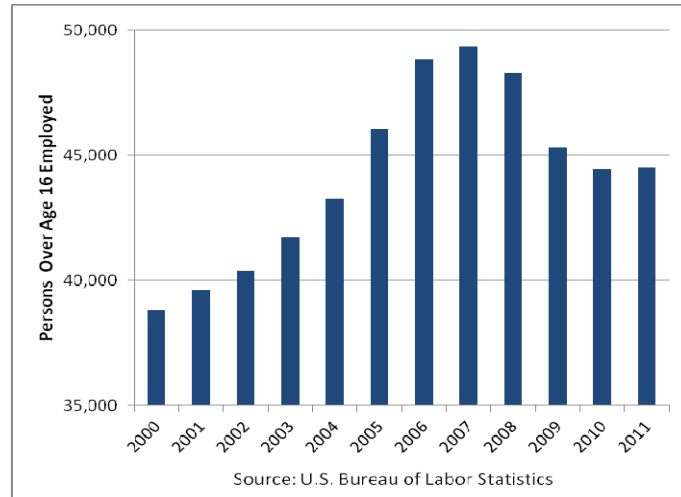
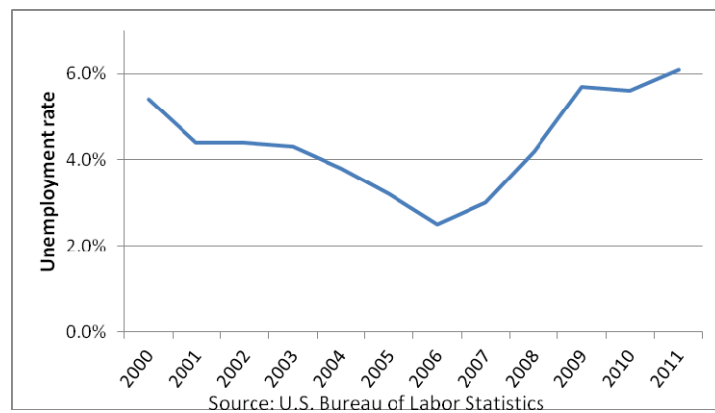


Figure 10. Employment Rate in Gallatin County, 2000-11



² Detailed employment statistics are available for Gallatin County but not Bozeman. Statistics are from October of each year except where noted.

Local Economy and Growing Sectors

Aside from the recent recession, Bozeman has seen a long-term trend of economic growth paired with strong population growth. Primary growth drivers are a major university, a regional hospital, plentiful opportunities for outdoor recreation, tourism, and the overall attractiveness of the community.

Montana State University (MSU) is the largest single employer in Bozeman, with 3,579 employees—2,300 full-time and 1,279 part-time including graduate assistants.

Bozeman Deaconess Hospital is the second largest employer, with 1,300 employees. An interview with a hospital official indicated that the hospital has not had much net job growth over the past couple of years. And with the uncertainty of health legislation and reimbursement rate cuts projected for Medicare and possibly Medicaid, the hospital is not anticipating future net job growth in the coming months and years. A human resources department official stated that the hospital is not aware of any significant issues concerning housing and/or staff availability of finding housing.

See Figure 11 for a list of the top 20 employers in Gallatin County.

Much of growth in industry sectors during the 2000s was exactly what is expected in a community that benefits from tourism, a growing university, and a major regional hospital. Most of the employment increases were in education, health care, restaurants, lodging, and retail businesses—a mix of higher-paying professional jobs and lower-paying service jobs. See Figure 12 and Figure 13 on the next page for statistics on Gallatin’s County’s workforce by industries and occupations.

It should be noted that Figure 12 and Figure 13 describe the number of civilians in Gallatin County over age 16 who are employed either full-time or part-time, some of whom hold down more than one job. The industries and occupations represent the primary jobs that were reported.

What Do These Trends Mean for the City’s Housing Plan?

Current market and demographic conditions raise crucial questions for Bozeman’s upcoming affordable housing planning effort: Has the housing market bottomed out? Will housing costs once again start increasing rapidly, and if so when? Will there ever again be another boom period like 2000-2007? Most of the builders interviewed foresee a “return to the norm”—in which growth in jobs, households and housing demand will return to the pace of the 1990s.

Figure 11. Top 20 Private Employers in Gallatin County

- Bozeman Deaconess Hospital
- RightNow Technologies
- Wal-Mart
- Albertson's
- Bozeman Daily Chronicle
- Bridger Bowl
- Community Food Co-Op
- Costco
- First Security Bank
- First Student Management
- Grantree Inn
- Kenyon Noble Lumber & Hardware
- Martel Construction
- McDonald's
- Murdoch's Ranch & Home Supply
- Ressler Chevrolet Cadillac & Toyota
- Simkins-Hallin Lumber
- Target
- Town Pump
- Zoot Enterprises

Source: Montana Dept of Commerce

This year’s reversal of serious employment declines is a sign that the countywide economy has finally stabilized after several years of decline. But the lack of significant employment gains in 2011 indicates that in-migration and household formation may remain stagnant in the short-term. A continued shrinkage in household sizes combined with growing enrollment at MSU would indicate a continued but slower growth in household formation.

Figure 12. Occupations of Gallatin County Workforce

Occupations	Number Employed	Percentage Of Workers	Change Since 2000
Management, business, science, arts	8,054	38.7%	+2,108
Sales and office	5,395	25.9%	+1,393
Service	3,953	19.0%	+1,175
Natural resources, construction, maintenance	1,893	9.1%	+425
Production, transportation, material moving	1,515	7.3%	+68

Source: 2000 Census and 2010 American Community Survey

Figure 13. Gallatin County Workforce by Industry

	Number Employed	Percentage Of Workers	Change Since 2000
Educational services, health care, social assistance	4,899	23.5%	+3,903
Arts, entertainment, recreation, lodging, food services	3,242	15.6%	+2,549
Retail trade	3,138	15.1%	+1,076
Professional, scientific, mgt, administrative, waste mgt	2,336	11.2%	+709
Construction	1,774	8.5%	+354
Manufacturing	1,181	5.7%	+164
Finance, insurance, real estate, rental and leasing	1,048	5.0%	+398
Other services, except public administration	1,040	5.0%	+281
Transportation and warehousing, and utilities	512	2.5%	+199
Wholesale trade	495	2.4%	+100
Public administration	493	2.4%	-15
Agriculture, forestry, fishing and hunting, and mining	392	1.9%	+102
Information	260	1.2%	-43

Source: 2000 Census and 2010 American Community Survey

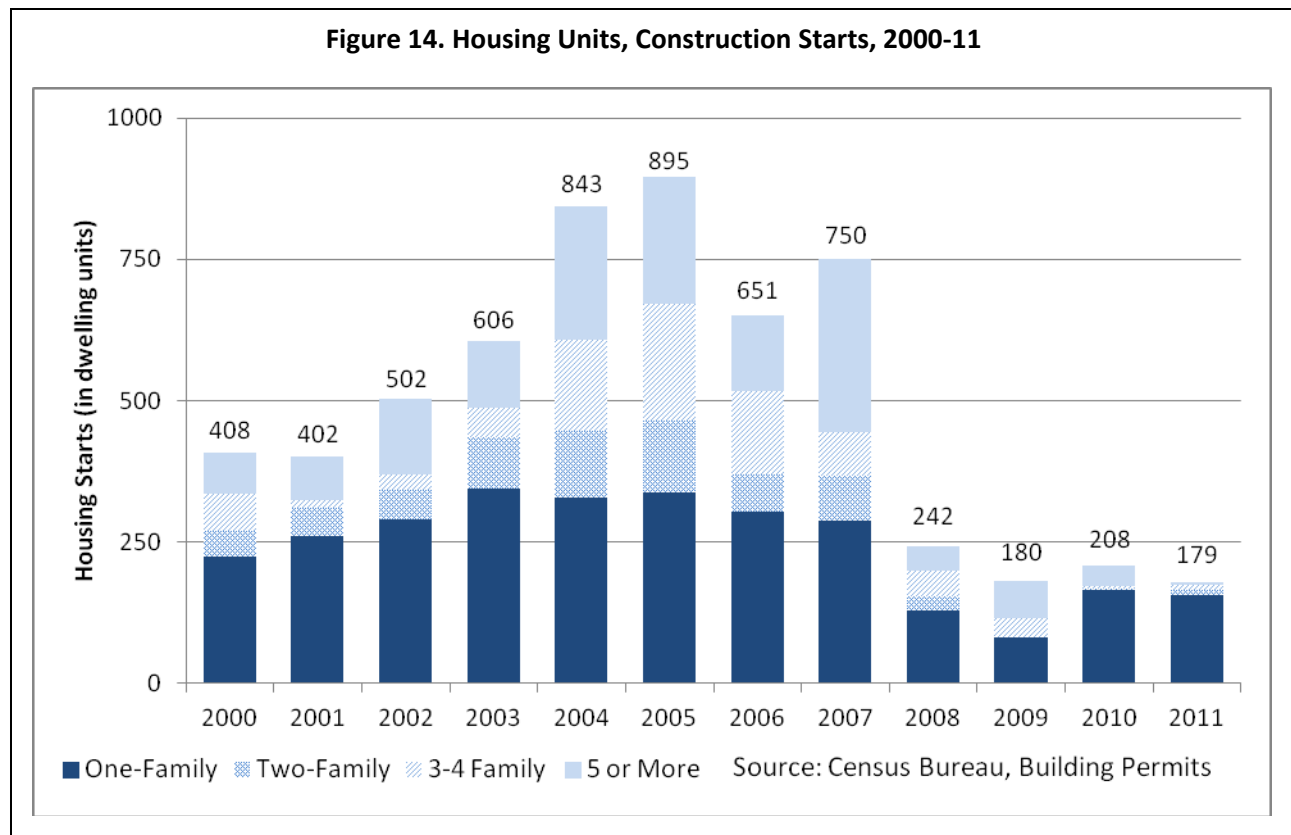
Sections of this report below will address more detailed supply, demand, pricing and affordability issues, and some proposed solutions.

4. Housing Market Profile and Trends

Housing Construction Activity

Housing construction in Bozeman boomed in the mid-2000s, and then fell off sharply after 2007. The peak year for construction starts was 2005, when permits were issued for 895 housing units. This is more than double the housing starts in 2000 and more than four times the average annual starts in 2008 through 2010. See details of these construction trends in Figure 14 below.

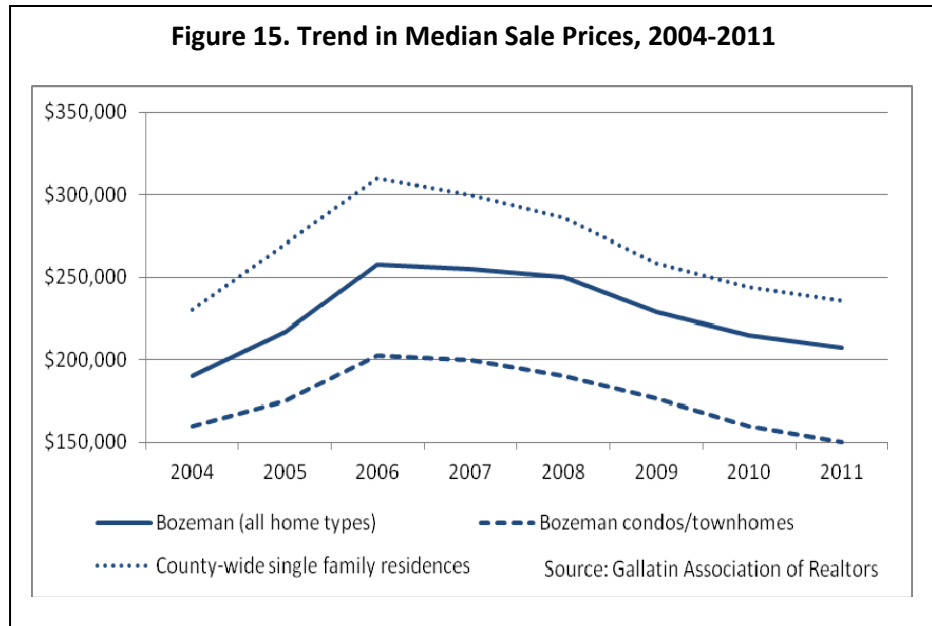
Construction starts of residential buildings with three or more units also peaked in 2005, at 445, reflecting high demand for multi-unit for-sale and rental housing. But in 2010, only 43 units in this category started construction—close to the number of starts in 2000.



Home Sales Activity and Prices

Likewise, home sales activity was strong in the mid-2000s and then declined, but not to the same degree as construction starts. The Gallatin Association of Realtors provided sales volume data in various price categories for 2004, 2006, and 2011 from its Multiple Listing Service and median sale prices for 2004-2011—shown in Figures 15 and 16 below. While a reliable indicator of sales trends, these statistics do not include homes sold privately and some homes sold directly by builders.

The MLS home sales data shows 828 home sales in 2006 and 594 sales in 2011—a decline of 29%. Sales of detached homes experienced only a 10% decline between those two years, while condos and townhome sales dropped 43%. Builders who were interviewed for this study commented that during the run-up in home prices in the mid-2000s, many homebuyers with lower and moderate incomes turned to condos and townhomes as an affordable alternative. While there will likely be steady long-term demand for attached homes that are more affordable and require less maintenance, these builders see a trend in demand back to detached homes as their prices have come down. Whether this becomes a long-lasting trend cannot be predicted, but clearly, condos and townhomes were temporarily over-built.



The median sale price of all residential homes peaked in 2006 at \$257,875, and for 2011 through mid-December was \$207,000—a 20% reduction. The median sale price of condos and townhomes in Bozeman declined 26% from \$202,400 in 2006 to \$150,000 in 2011.

Figures 17 and 18 show the number of sales of detached homes and condo/townhomes at various price points. In recent years, most detached homes have sold for \$150,000 or more. This indicates that an annual income of \$40,000 or more is required to buy a detached home.³

Figure 16. Number of Sales by Year, Bozeman Homes, All Types

	<u>2004</u>	<u>2006</u>	<u>2011</u>
Sale Price			
Under \$50,000	9	5	2
\$50,000-\$99,999	11	5	28
\$100,000-\$124,999	41	14	43
\$125,000-\$149,999	84	39	53
\$150,000-\$199,999	271	161	143
\$200,000-\$249,999	265	149	152
\$250,000 and over	179	455	173
Totals	860	828	594

Source: Gallatin Association of Realtors

³ This section of the study uses a multiplier of 3.75 times annual income to roughly estimate affordable prices. This assumes a 5% mortgage interest rate, a 3% down payment, as well as monthly carrying costs equal to about 0.27% of the home price, or about \$350 per month for a condo purchased for \$130,000. Carrying costs include real estate taxes, property insurance, HOA fees and mortgage insurance premiums. See Section 7 for more precise calculations of affordable price points.

Figure 19 indicates that in December 2011, 48 condos and townhomes were selling for \$120,000 or less. Of these, 28 were priced below \$100,000 and many were newly built. Many of the lowest-priced condos were built by Bozeman’s Human Resource Development Council (HRDC). HRDC presently has 22 condos to sell and enough zoned land to build 24 more. Mortgage-qualified homebuyers with incomes as low as \$25,000 a year can afford the lowest-priced condos.

Affordability of For-Sale Homes

In assessing affordability of for-sale homes to households of various sizes, it is necessary to match current prices with bedroom configuration of homes and assumed household sizes. Figure 20 below indicates that one- to three-bedroom condo and townhome prices are affordable to families with minimum incomes of approximately \$26,000 to \$35,000. These incomes correspond to 50%-57% of area median income (AMI) as published by HUD. Detached three- and four-bedroom homes require minimum annual incomes of approximately \$38,000 to \$47,000— corresponding to 70% to 72% of area median income.

**Figure 17. Numbers of Sales by Year
Bozeman Detached Homes**

	2004	2006	2011
Sale Price			
Under \$50,000	0	0	0
\$50,000-\$99,999	0	0	0
\$100,000-\$124,999	1	0	0
\$125,000-\$149,999	6	0	5
\$150,000-\$199,999	120	5	61
\$200,000-\$249,999	240	40	128
\$250,000 and over	154	335	147
Total	521	380	341

Source: Gallatin Association of Realtors

**Figure 18. Numbers of Sales by Year
Bozeman Townhomes/Condos**

	2004	2006	2011
Sale Price			
Under \$50,000	0	0	1
\$50,000-\$99,999	9	1	28
\$100,000-\$124,999	40	13	41
\$125,000-\$149,999	77	39	47
\$150,000-\$199,999	149	155	82
\$200,000-\$249,999	25	109	24
\$250,000 and over	25	118	26
Total	325	435	249

Source: Gallatin Association of Realtors

Figure 19: MLS Asking Prices of Homes in City of Bozeman in "Affordable" Price Ranges

	Max. Price Searched	Number Listed	Price Range	Median Price	Square Footages
1 Bedroom Condos/Townhomes	\$120,000	8	\$83,900-\$96,000	\$96,000	818-1,020
2 Bedroom Condos/Townhomes	\$120,000	34	\$85,000-\$120,000	\$97,000	862-1,241
2 Bedroom Detached or Duplex	\$120,000	6	\$85,000-\$119,900	\$102,500	784-1,647
3 Bedroom Condos/Townhomes	\$150,000	16	\$87,900-\$149,000	\$129,900	1,170-1,697
3 Bedroom Detached or Duplex	\$150,000	4	\$105,000-\$149,000	\$144,000	1,370-2,061
4 Bedroom Detached or Duplex	\$200,000	4	\$154,900-\$199,900	\$174,999	1,762-2,206

Source: Werwath Associates sample of Southwest Montana MLS listings, 12/15/2011

Again, it should be noted that HUD’s area median income (AMI) standard for Gallatin County is higher than the median household income for both Bozeman and Gallatin County as reported in the 2010 Census. And readers should note that Montana state law prohibits real estate sales prices from being required to be public information—thus this study’s reliance on sales reports from the Gallatin Association of Realtors.

Figure 20: Minimum Income and AMI Level Need to Buy Homes at MLS Asking Prices

	Assumed Family Size	Median Price	Min. Annual Income	Approx. AMI Level
1 Bedroom Condos/Townhomes	1	\$96,000	\$25,600	55%
2 Bedroom Condos/Townhomes	2	\$97,000	\$25,867	50%
2 Bedroom Detached or Duplex	2	\$102,500	\$27,333	51%
3 Bedroom Condos/Townhomes	3	\$129,900	\$34,640	57%
3 Bedroom Detached or Duplex	3	\$144,000	\$38,400	72%
4 Bedroom Detached or Duplex	4	\$174,999	\$46,666	70%

“AMI” indicates percentages of the Gallatin County Area Median Income as published by HUD for 2011.

Predictably, newly constructed detached homes are more expensive than condominium and townhome units. At the low end of the new home market, one builder reported offering new three-bedroom detached homes with 1,300-1,400 square feet for \$160,000 to \$165,000 on lots with fewer than 5,000 square feet. Another builder has recently sold two much smaller (760-square-foot) two-story, two-bedroom, two-bath homes for \$120,000 to \$125,000 on 3,500-square-foot lots.

The homes prices of two other builders interviewed were higher. One is selling three-bedroom homes of 1,250 to 2,048 square feet for \$179,000 to \$224,000 on 5,000 to 6,000 square foot lots. Another builder’s lowest-priced homes in Bozeman are selling for \$210,000 to \$215,000, for 1,500-square-foot homes with two-car garages and a number of energy-efficiency features.

Several of the builders interviewed stated that buyers of new homes, including lower-income buyers, have a preference for detached homes with usable yard spaces. In their view, condos became popular during the mid-2000s primarily because detached homes became unaffordable to many low- and moderate-income buyers. Now, market data indicates that some new, detached homes are affordable to some “low-income” families with incomes of 70% of AMI and higher. However, in the current market, condos and townhomes are by and large the only products affordable to buyers with incomes below 70% of area median income.

For-Sale Inventory

According to the 2010 Census, Bozeman at that time had a much higher for-sale housing vacancy rate than the comparison locations—in other words, a higher than average inventory of homes for sale. This is due in large part to a slacking of demand, as indicated by the economic data in Section 3 of this report. And another factor has been a severe tightening up of mortgage lending standards in the wake of the sub-prime lending crisis, which has made it harder for builders to finance construction and for homebuyers to get mortgage loans. In addition, foreclosures have added to the inventory, as described below. One builder reported that the federal stimulus incentives of up to \$8,000 per homebuyer helped to drive sales until the program expired, and then demand slackened somewhat.

Even so, Bozeman does not have an inordinately large inventory of homes on the market. When comparing the number of current MLS listings (330) with the number of homes sold in 2011 (594), it indicates a 6.7-month supply of homes on the market. This was close to the national supply indicator in October 2011—6.1 months inventory, according to the Census Bureau—which was considerably less than the national peak of 12.2 months' supply in January, 2009. In the early 2000s, a four-month supply was typical for the U.S. as a whole. .

Given the difficulties for builders in getting construction financing, the supply of new homes—affordable and at higher prices—could become much tighter in the next few years. One builder reported that buyers are resistant to “pre-sales”—that is, signing contracts before homes are built. Several builders of detached homes in the affordable price ranges reported that they are only building groups of three to five “spec” homes—much smaller phases than when construction financing and homebuyer financing was easier to obtain and builders had more pre-sales. Since normal home construction financing is now very difficult to obtain for “spec” homes, the number of builders able to finance them is limited to those in a very strong financial position—who can still get working capital from private investors and banks.

One lender reported that his institution is offering to sell and finance lots that it owns to builders for spec homes if they are in the \$185,000 to \$290,000 price range, which is seen as a strong market.

In many U.S. markets, there is a much greater difficulty in financing condominium homes, which make up the majority of Bozeman's homes for sale in the lower price ranges. Lenders nationwide are more strictly applying requirements that over 50%, and in the case of FHA , 70% of the condos within a particular property must be owner-occupied, to be eligible for conventional loans. In many markets, this has all but dried up 30-year, low-interest-rate financing for condos. But lenders and others interviewed indicated that a significant number of condominium properties in Bozeman meet the owner-occupancy threshold. One lender stated that builders have recently build condos in smaller phases in order to help maintain the required levels of owner occupancy.

Mortgage Foreclosures

The foreclosure crisis has contributed to downward pressure on home prices in Bozeman and Gallatin County. In 2011, completed foreclosure trustee sales accounted for about 300 transfers countywide,

compared to nearly 900 countywide home sales in 2011 reported by the Gallatin Association of Realtors.

According to a proprietary report provided by Sunrise Homes, LLC, the foreclosure pipeline in Gallatin County averaged 313 cases a month between from November, 2009 through March, 2011 but had dropped to 241 cases by October, 2011. Of these, 95 cases, or 39%, were homes valued under \$200,000—which this report indicates are at the upper end of the “affordable homes” price category. The pipeline consists of all homes in various stages of foreclosure, from notices of default to trustee sales recorded. See Figure 21 below.

Bozeman homes accounted for 152, or 63%, of foreclosure cases in process in October 2011. This was down from a peak of 201 in November 2010.

The monthly number of recorded trustee sales countywide peaked at a high of 38 in January 2010 and has since dropped. In 2011, the number of trustee sales per month averaged about 25.

The Sunrise Homes report noted that 178 trustee sales had been rescheduled from November 2011 through February 2012—a huge spike, compared to the 20 cases rescheduled in the previous 12 months. No reason was given in the report, but one likely cause could be the nationwide trend toward litigation over alleged improper documentation of mortgage transfers and foreclosure processes. In any case, this backup points to another temporary surge in foreclosures.

But the downtrend in foreclosures is likely to continue. The Housing Resource Development Council (HRDC) counsels homebuyers facing foreclosure; a representative noted that there has recently been an increase in lenders granting loan modifications. A number of their clients facing foreclosures have been construction workers, of whom many have found jobs in the North Dakota oil and gas fields—possibly portending fewer foreclosures due to loss of construction employment.

No data is available for short sales, but these have undoubtedly added to the number of distress sales that have exerted downward pressure on home prices.

Existing Housing Conditions

No detailed data are available that indicate possible needs for housing rehabilitation in Bozeman. The Census only tallies the number of housing units without complete plumbing or kitchen facilities. The

Figure 21. Foreclosure Pipeline in Gallatin County by Price Point, October, 2011

	<u>Number in Foreclosure</u>
\$0-\$50,000	3
\$50,001-\$100,000	16
\$100,001-\$150,000	32
\$150,001-\$200,000	44
\$201,000-\$250,000	47
\$250,001-\$300,000	34
\$300,001-\$350,000	18
\$350,001-\$400,000	11
\$400,001-\$450,000	9
\$450,001-\$500,000	2
\$500,001+	<u>25</u>
Total county pipeline	241
Bozeman Only	152

Source: Data courtesy of Sunrise Homes, LLC

number of those housing units increased from 88 to 258 Bozeman between 2000 and 2010—representing 2.1 percent of the total housing stock, as compared with 1.6% nationwide. These numbers may or may not represent substandard housing conditions. The data could indicate an increase in “single-room occupancy” type housing that have shared bathrooms and limited cooking facilities. City officials noted that there is a steady increase in the number of illegal housing units located in basements and other areas without proper ventilation, natural light and points of egress in the event of a fire. In response, the City is launching an initiative to educate property owners and residents as to the dangers, and to encourage voluntary inspections to determine if there are safety hazards and other code violations.

Anecdotal reports indicate that substandard conditions exist in some older mobile homes located within the City. In mobile home parks just outside the City, it was reported that wells and on-site septic systems are aging, and in some instances failing. A policy issue for the City of Bozeman is whether to encourage annexation of these mobile home parks so that they can have access to public water and sewer systems. In doing so, the City might consider requiring some covenants to preserve continued operation of the parks and/or affordable rent limits for residents. There is at least one precedent for extension of sewer lines to a mobile home park outside Bozeman. The City code sets out a process and criteria for requesting extensions, so the question is not whether extensions are allowed, but whether they should be encouraged.

Overcrowding is not a significant problem in Bozeman. Only 76 dwelling units were reported by the 2010 Census to have more than 1.5 occupants per room—only an increase of 12 dwelling units compared to the tally in the 2000 Census. This condition occurred in only ½ of 1% of the housing stock, compared to 1% nationwide.

Rental Housing

There are a number of factors creating pressure on the Bozeman rental market. Aside from rapid population and job growth, increased enrollment at Montana State University also creates steady pressure on the supply of rental housing. High student populations create a higher demand for housing that is often not based on the economic conditions present in the local community, which can inflate rents. Student populations are also generally willing to co-house with multiple roommates, which makes their total payment capacity significantly higher than that of a single parent with children. Several interviewees remarked on the encroachment of student housing into what were once single-family neighborhoods.

According to the 2010 Census, there were 1,279 renter households with incomes between \$20,000 and \$35,000 a year paying more than 30% of their income on housing. In addition there are another 2,244 cost burdened renter households with incomes below \$20,000 a year, which yields a total rental housing need of more than 3,500 renter households. Renters in the \$20,000-\$35,000 income range are the target market for below-market-rate rental housing funded through the federal Low Income Housing Tax Credit (LIHTC) program.

LIHTC projects with 40 units are an optimal size for obtaining federal subsidies that enable project owners to charge below-market rents. No LIHTC projects have been built in Bozeman since 2005—likely due to the downturn in the market as well as competition for tax credits from projects elsewhere in Montana. But at least one Bozeman builder and manager of LIHTC properties is applying this year for an 11-unit LIHTC development.

Unfortunately, LIHTC development aimed primarily at 40%-60% of the area median income still will address only a small fraction, at best, of the needs of most households with incomes below \$20,000 a year. This highlights the importance of continued development of subsidized elderly, transitional and special needs housing, as well as the possible coupling of other subsidies to achieve even more affordable rents in LIHTC projects. Federal programs designed especially for housing homeless, disabled and senior residents have some funding available, but due to heavy competition for funds, it would be difficult to finance an average of more than 10 very affordable rental units per year in Bozeman.

**Figure 22. Rental Housing Costs and Vacancy
(Small Sample)**

	<u>Rent Range</u>	<u>Average Rent</u>
Studio	\$550	\$550
One Bedroom	\$475-\$800	\$604
Two Bedroom	\$429-\$829	\$738
Three Bedroom	\$491-\$1200	\$977
Average vacancy 1.8%		
Source: Werwath and Associates Survey		

Therefore, while the housing needs of under-\$20,000 income residents are the most acute in Bozeman, there are few resources available to fill the huge gap of affordability.

General market data also supports the findings of acute needs for affordable rental housing. A survey of 796 non-subsidized apartments found 15 vacant rental units—a 1.8% vacancy rate.

That same survey of multifamily properties was combined with a survey of advertisements for vacant rental properties to estimate current rent levels in Bozeman, as shown in Figure 22. The survey found that the average rent for a two-bedroom apartment is currently \$738. A unit at this price is affordable to a family of three with an income of approximately 49% of area median income or higher. The very high occupancy levels indicate that rents may be increasing.

To estimate current rental rates, the survey of rental complexes was combined with two snapshot reports of rental listings in the Bozeman Daily Chronicle (provided by a builder), to assess current rent levels. The snapshots took place on July 17, 2011 and October 30, 2011. For these analyses, only multifamily rental complexes were added to the survey universe, in order to eliminate outliers for higher-priced rental single-family homes and condos that are individually rented.

Other trends were identified from interviews with rental property managers and HRDC staff. This research revealed a steep drop in LIHTC rental demand in the fall of 2009.

A representative of Alliance Property Management, manager of 244 of 505 LIHTC units in Bozeman, related how the economic downturn temporarily affected these properties in the fall of 2009. The vacancy rate of all the company’s managed LIHTC properties, including projects in Belgrade, Big Sky and Livingston, quickly increased to 16%, compared to a rate of 5% or less that would be considered stable. This was addressed in early 2010 by adjusting rental rates down 7-27% depending on unit size and location.

However, by May of 2011, the vacancy rates in these properties had returned to normal levels, allowing for rent increases of 5% to 10%. As of December 2011 vacancy rates were very low—2% to 3%. Current rent levels in these properties are as follows: \$350-\$490 for one-bedroom units, \$410-\$600 for two-bedroom units, \$605-\$695 for three-bedroom units, and \$645 for a single four-bedroom unit. One-bedroom units are apparently the most in demand, since rents are now at virtually 100% of the federally-permitted rent levels. Two-bedroom units are at 90% of the maximum allowed rents, while three-bedroom units are at only 75% of the allowed rent levels.

It is difficult to predict future demand, although there are several factors that will likely continue to place pressure on affordable rental housing stock. Foremost, and hardest to quantify, is the pace of the economy and job creation. There are signs that the local economy may have bottomed out, which could signal an upturn in employment and household growth. And if current trends continue, enrollment growth at Montana State University will place additional demands on the lower-priced rental housing stock. The rate of growth over the past 10 years has been around 200 students per year, with no new student housing being constructed in recent years. Assuming three people per dwelling unit, the growth rate would indicate about 60 new households a year living off-campus.

Mobile Home Rentals

Mobile homes remain a very important source of affordable housing in Bozeman. A survey was completed of eight mobile home parks within the City limits that have over 600 mobile homes. Much like other rental housing, there were very low vacancy rates with a total of three pads and four mobile home rentals reported as being available in December of 2011.

Park managers also report very low turnover, in the range of one to two units a year for most parks. The average cost for a pad rental was \$350 a month and generally included water, sewer and refuse collection. Several of the mobile home parks offered mobile home rentals, which had an average rental rate of \$530 a month, also including water, sewer and refuse collection. See Figure 23 for details.

Figure 23. Mobile Home Rental Costs and Vacancy

	<u>Rent Range</u>	<u>Average Rent</u>	<u>Vacancy Rate</u>
Pad	\$300-\$395	\$350	2%
Mobile Home	\$500-\$650	\$530	4%

Source: Werwath and Associates Survey

At \$530 a month, the average mobile home rental is affordable to a family of three with an income at 35% of median income or higher, calculated at a 30% housing ratio. It is clear from these comparisons that mobile homes represent important affordable housing opportunities for very low-income households in Bozeman.

Mobile homes do face a number of future threats in the Bozeman area, including redevelopment and aging infrastructure. There are several parks within Bozeman that are in locations that could make them attractive for redevelopment, as was the case with the Bridger View Mobile Home Park. That 17-acre site was cleared as part of a large master planned development and has now reverted to bank ownership, which resulted in the elimination of 98 mobile home units. There are also several parks located immediately outside Bozeman City limits that are currently not connected to City services. With aging sewer and water infrastructure, this raises questions about the sustainability of these parks as these systems become obsolete. Because of the importance of mobile home parks within the spectrum of affordable housing options in Bozeman, the City may wish to consider adopting a policy aimed at the preservation of these parks.

Comparison With Other Geographic Areas

Bozeman has a lower median household income than Gallatin County, Montana or the nation (as measured by the Census, not HUD). Yet the median home value as measured by the 2010 Census was higher than the median home values nationwide, statewide in Montana, and in the comparison cities of Billings and Missoula. See Figure 24.

Higher home values combined with a lower median income make Bozeman an expensive place for the typical household to buy a home. Figure 25 indicates that the median income Bozeman family would have to pay nearly 6.5 times its income for a median-valued home. This compares with a much more affordable ratio of 3.7 nationwide and 4.2 statewide in Montana.

Figure 24. Selected Income and Housing Indicators for Bozeman and Other Areas, 2010

	Bozeman	Gallatin County	Billings, Montana	Missoula, Montana	Montana	United States
Median household income	41,705	50,239	46,065	36,872	43,335	51,222
Median home value	268,700	280,900	176,100	244,300	180,800	187,500
Median rent	746	799	688	691	639	850
Percentage of renters paying over 30%	49.3%	44.4%	40.1%	56.5%	39.6%	47.8%
Percentage of owners paying over 30%	27.6%	29.2%	22.9%	32.1%	25.5%	30.5%
Rental vacancy rate	4.9	4.9	2.5	4.6	6.0	8.1
For-sale housing vacancy rate	4.3	2.7	0.3	0.8	1.8	2.5

Source: U.S. Census Bureau. 2008-2010 American Community Survey

Even so, the percentage of homeowners with high housing cost burdens was lower than in the nation as a whole, in Gallatin County or in Missoula.

The Bozeman median rent was lower than the national median, but higher than the median rents statewide in Montana, in Billings, and in Missoula. Bozeman’s rental vacancy rate in 2010 was considerably lower than the national and statewide rates, but higher than the vacancy rates in Billings and Missoula. In balance, this data further indicates relatively strong demand for rental units in Bozeman.

Conclusions Regarding Affordable Housing Supply and Demand

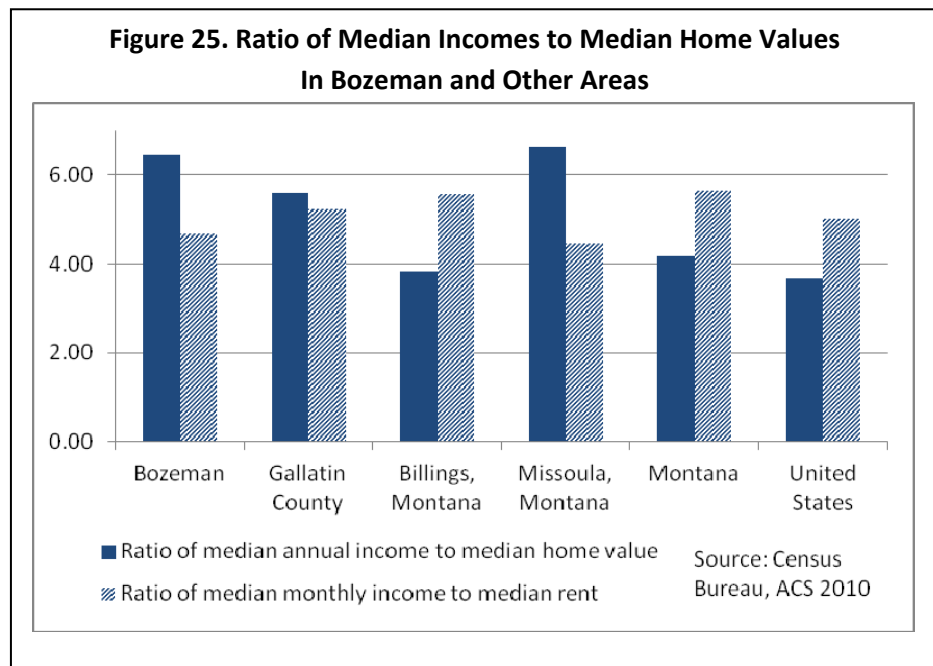
The evidence from employment and demographic statistics indicates low-to-moderate overall demand for home purchases for the next few years. This general trend does not mean that all parts of the housing market have reset for the long term at much lower prices. Only time will tell whether housing prices increase again, and if so, how fast they increase.

And lower prices for “turnover” homes and rental units do not mean that Bozeman’s affordable housing problems are solved. Overall, there is enough housing for everyone in Bozeman, but a very large number of

Bozeman households, particularly renters, will have to cope with high housing cost burdens. Particularly at the lower income levels, there is a mismatch between housing costs and incomes.

For-sale housing is generally available at prices that are much more affordable than five years ago (as described in Section 4 above)—but only for households able and willing to buy. Many of the affordable purchase opportunities are condominiums, which in some cases are difficult to finance, as described above. And the supply of affordable for-sale detached homes is very tight—so realistic options for home purchases may be more limited than they appear from the number of homes for sale in the market.

Obtaining financing is clearly a barrier for prospective low- and moderate-income homebuyers. Investors with cash have a distinct advantage in buying foreclosed and short-sale homes. And lenders’



credit standards have tightened up considerably in the wake of the national sub-prime lending crisis.

For the most part, households with incomes below 50% of area median income are priced out of homeownership. As a rule of thumb in the affordable housing industry, rental housing is more appropriate for households in this income group—except for special programs such as Habitat for Humanity, who employ careful screening of applicants and offer extra support for families after the purchase.

But available rental housing in Bozeman is not affordable to many existing and new renters—as indicated by the cost burden data provided above. The higher vacancies and rent decreases of a few years ago have quickly reversed themselves. Availability of mobile homes and pads rentals has declined.

5. Housing Development Costs

The cost of building new affordable housing in Bozeman has come down somewhat from the peak of the real estate boom. Foreclosures on parcels of land and the resulting reduction of the costs of house lots have contributed to that.

Regarding land costs, one builder reported that in one subdivision, 5,000 to 8,000 square foot lots that cost \$39,000 at the peak of the market are now selling for \$25,000 to cash buyers, while larger lots are selling in the range of \$40,000 to \$60,000. At a foreclosure auction a year ago, lots sized at 4,000 to 5,000 square feet sold for \$18,000 to \$20,000.

Regarding building costs for smaller detached homes in the affordable price ranges, builders reported costs per square foot of \$90 or more, not including permit and impact fees. Homes with more expensive appliances and finishes were reported to cost around \$120 per square foot. City impact fees were reported to add another \$10,000 to \$12,000 per unit. When land, financing costs, overhead and profit are added in, the costs correspond to the lowest prices offered for smaller, modest new homes.

Building costs of multifamily rental and condo units were reported to be a minimum of \$80 per square feet. Land costs and infrastructure costs per unit were reported to be a minimum of \$15,000 per multifamily unit, with added permit and impact fees of \$3,500 to \$5,000 per unit. Taken together, these factors give multifamily housing an approximate minimum \$25,000 per unit cost advantage compared to building detached homes of similar construction quality.

Getting detailed and accurate information on local land and building costs was beyond the scope of this study, and therefore it is difficult to compare Bozeman's building costs with those in other markets. However, if the builders' estimates are reliable, it appears (based on the author's recent data collection) that Bozeman currently has land and building costs that are considerably lower than in the Ketchum, Idaho and Durango, Colorado areas—smaller but seemingly similar resort-oriented markets, one of which (Durango) is also a college town. The costs are somewhat higher than, for example, in the Denver suburbs, where much larger markets lead to economies of scale.

Several builders interviewed indicated that costs of land, materials and labor had come down since the boom years. One builder noted that his labor costs were not reduced, apparently due to the exodus of construction workers to North Dakota.

6. Land Use and Building Regulations

A thorough evaluation of land use and building regulations is beyond the scope of this affordable housing needs study. But through interviews with builders, land developers, City planning staff and others, certain regulations were identified as having special importance to the future supply of affordable housing.

Workforce Housing Ordinance

This City ordinance was in effect from 2007 until September, 2011, when the City Commission suspended it for a year. The ordinance has produced no discount-priced homes, as originally intended. This “inclusionary” ordinance required that a certain number of lots be set aside for “workforce housing” in new subdivisions with 10 or more lots and five or more acres. It required that 0.4 workforce units per net buildable acre, after taking out streets and common areas. For example, four units were required in a subdivision with house lots totaling 10 acres. Land developers were given a number of incentives to offset the cost of price discounts. Incentives included reduction of parkland requirements, allowance for smaller-than-normal lots, density bonuses, and deferral of city impact fees. The ordinance was applied to four subdivisions.

The ordinance was suspended primarily because of the perceived over-complexity of the requirements, its high administrative costs, and—most crucially—the softening of the real estate market that began (hindsight now indicates) in the year before the ordinance was passed. The subsequent real estate market decline resulted in home prices that were generally lower than the price targets in the ordinance. In short, the targets for price discounting no longer amounted to price discounts. In addition, there was a concern that builders would get significant incentives simply for promising to build and sell homes at what were essentially market-rate prices.

(The suspension of the Workforce Housing Ordinance and the Restricted-Sized Lot provisions of the code—see below—were major factors in the City commissioning this housing study.)

There were other matters of concern, such as deed restrictions to put a cap on resale prices of the “workforce” homes— seen by some as a deterrent to buyers, who in a softer market would choose to buy other homes with no restrictions. Both builders and code administrators noted complexities in the ordinance that made it difficult to implement and expensive to administer. An apparent major issue was the complexity of implementation for builders, who inherited requirements (but not many direct incentives) from land developers. To ease implementation and reduce administrative costs, the ordinance might have focused primarily on a subdivision delivering a certain number of homes with price discounts and income limits, while using existing code standards and processes to approve the design and layout of the subdivisions. Provisions for smaller lot sizes helped to enable more affordable home construction, but if homes on smaller lots are seen as desirable (rather than a concession), then the code could be changed to allow for that in all single-family residential developments.

On the other hand, the ordinance and its administration lacked some features that would have made compliance simpler, more effective, and less costly from an administrative standpoint. The price points should have been updated at least once a year to reflect changes in the market. Clear standards were lacking for calculating in-lieu fees. Likewise, “in-lieu” land donations to nonprofits or the City for dedicated affordable housing construction could have been more actively encouraged and a method provided for determining the amounts of land that could be contributed.

The framework of the ordinance is similar to inclusionary housing ordinances that have been effective in other communities. The percentage of affordable homes required was less than in many similar programs, and offsetting incentives were available. Therefore, it appears that the ordinance could have been effective if the ordinance had been better designed, home prices remained high, demand was strong, and builders were generating enough profit to be able to discount the prices of some homes.

The City will face a policy decision in September 2012 when the suspension ends—whether to revoke the ordinance, keep it suspended, amend it, or to replace it (on a temporary or permanent basis) with incentives for builders to voluntarily build and sell lower-cost homes and rental housing. If the latter option is taken, this study indicates that home price and rent targets should be much lower—geared to help Bozeman residents who are priced out of either home purchases or market-rate rental housing.

Impact Fees

Builders interviewed understood the rationale for the current impact fees—namely, paying for a share of off-site water, sewer and road systems that their projects depend on. Still, impact fees averaging about \$11,000 per detached home were seen as high, driving up costs and home prices, and thereby indirectly reducing demand. Several builders suggested that they be waived, reduced or deferred—at least for homes in the affordable price ranges. Deferrals of these fees were included in now-suspended Workforce Housing Ordinance. The City might wish to consider adopting a new (or temporary) set of incentives for builders to voluntarily build discount-priced rental and for-sale housing. If the City were to do this, deferral or subsidy of City fees could potentially be one of the most powerful incentives.

Restricted-Size Lot (RSL) Requirements

Another provision of the City development code was intended to encourage development of affordable homes. The so-called Restricted-Size Lot (RSL) requirements were first put into effect in 2003 and set to automatically expire in 2008 unless the City Commission chose to renew them—which did not occur. The purpose was to increase the supply of smaller homes on smaller lots—on the logical assumption that these homes would remain more “naturally” affordable than larger homes in the market. The RSL provisions required that 10 percent of the buildable net area of a single-family residential development had to be devoted to small lots—of no more than 5,000 square feet for detached homes and 3,000 square feet for attached homes. The square footage of homes on these lots was also restricted. RSL requirements were applied to 14 subdivisions.

While the code provision is no longer effective, those preliminary plats that were approved with RSLs were required to include them in their final plats. So many RSLs ended up as platted lots, even after the sunset of the RLS requirement. In addition, the City Commission has an existing policy that RSLs cannot be modified or eliminated through boundary line adjustments, lot-line eliminations, or subdivision exemption processes. A full preliminary plat process is required to modify or eliminate the RSLs, so most RSL lots exist as originally platted.

Several land developers and builders commented that the ordinance created obstacles for developing the affected subdivisions, particularly given the reduced pace of construction and home sales in the current market. The smaller lots with smaller homes are said to be difficult to find buyers for. And the smaller lots scattered throughout the subdivisions are said to make it more difficult to build and sell homes on the larger lots. The developers' proposed solution is to re-plat the subdivisions to create a more marketable mix and layout of the house lots. And that raises concerns about the cost and time involved in the re-platting.

But another builder—whose business model includes targeting the market for modest, lower-priced homes—felt that the RSL requirements were workable and the small lots can indeed lead to more supply of homes at prices of \$160,000 and up. This builder's concern was the limitation in the City codes on building only attached townhomes on lots smaller than 5,000 square feet. Two-story detached homes on 3,500 square foot lots were permitted through the incentive provisions of the Workforce Housing Ordinance. He feels the market is much stronger for lower-priced detached homes as compared to condos and townhomes, and would like to see the development code changed to be more flexible in this regard. Also he noted that many buyers, including those with modest incomes, want yards. For this reason, he believes the City should reconsider encouraging subdivisions to include alleys for backyard garage access—in the “neo-traditional” planning mode. This inevitably cuts down yard sizes and reduces the net buildable area of a subdivision, the builder commented.

7. Baseline of Affordable Housing Activities, Their Value and Effectiveness

For a community the size of Bozeman, there is a well-developed infrastructure for affordable housing service delivery across the spectrum of housing need from homelessness through foreclosure. Services are delivered through six primary non-profit service providers who are steadily increasing service capacity and delivery on an annual basis. See Figure 26 below for a summary of the affordable housing output and additions to the affordable housing stock. “Affordable” in this section of the report, refers to housing that was subsidized through public funding, federal tax credits, private donations or volunteer labor—and either priced below market or with special financing to make home purchases affordable. See Appendix B for more details on affordable housing production and assistance.

Notable are recent increases in capacity of homeless shelters with the opening of HRDC’s winter warming center, as well as the tripling of transitional housing opportunities for Bozeman families over the last year. This is complimented by a major homeownership rehabilitation and new construction project being undertaken by the Human Resource Development Council (HRDC) with federal Neighborhood Stabilization Program funding. The only notable lack in recent affordable housing outputs is in the area of affordable rental—addressed in the section above.

Figure 26. 2011 Affordable Housing Production and Assistance - Within City of Bozeman Except as Noted

	2011 Outcomes/ Additions	Outcomes: All Years
Homeless Shelter Beds	24	36
Domestic Violence Shelter Beds	0	13
Transitional Housing Beds	6	12
Transitional and supportive housing units for homeless/special needs	6	59
Transitional Housing Rent Subsidies	8	8
Subsidized Rental Units Built	0	529
Households with Federal Rent Subsidies	10	273
Clients for Pre-purchase Counseling	116	Unavailable
Clients for Foreclosure Counseling	17	Unavailable
Affordable Homes Built for Sale (Including 61 in Bozeman Area)	15	117
Down Payment Loans Provided (Unconnected with Homes Sold)	1	Unavailable

Source: Werwath and Associates Survey

Affordable Home Construction

Starting in the early 1990s, a total of 117 affordable homes have been built by nonprofits for sale to low-income families in Bozeman and surrounding parts of Gallatin County.

Habitat for Humanity of Gallatin County has developed a total of 61 homes in the greater Bozeman area since 1991. Habitat maintains an annual production of three to four units a year. This is relatively high level of production for a Habitat affiliate of this size, which has succeeded through effective partnerships and bargain purchases of land. (Habitat staff related that they are currently exploring expanded service

models including Low Income Housing Tax Credit development as well as models for permanently affordable housing.)

Currently, Habitat does not anticipate a great deal of near-term housing development within the City of Bozeman, mainly due to the fact that house lot and land prices are less expensive outside Bozeman. They do anticipate steady annual output of three to four units a year going forward in the nearby community of Belgrade.

The Human Resource Development Council (HRDC) is also responsible for major for-sale housing development activity in the Bozeman area. In the 1990s, HRDC had developed 20 units of for-sale housing, all of which is held in a land trust that restricts resale prices and incomes of future buyers. In 2009, HRDC utilized Neighborhood Stabilization Program (NSP) funding to purchase the West Edge Condominium development, which consisted of 23 existing units and undeveloped land. To date, 14 of the existing units have been resold, two are currently listed for sale, and legacy renters from prior to acquisition occupy the remaining seven units. These seven units will be offered for sale as current tenant vacate.

In addition, HRDC built 36 units of new housing as part of this project. Of these, 14 units have been sold with the remaining 22 units available for purchase. All buyers can access NSP-funded down payment assistance, which is secured by a second mortgage. One challenge of marketing these properties has been obtaining prime mortgage financing for the condo buyers, which has not achieved the required level of occupancy to qualify for conventional or government insured mortgages that can be sold in the secondary mortgage markets. Luckily because of NSP subsidy, the resulting low loan-to-value ratios have been sufficient for local banks to offer portfolio financing for qualified buyers at interest rates below 6%.

Given the currently large inventory of 22 units for sale, with another seven units currently in rental, there is not currently a high priority for further for-sale housing production, especially for condos. This situation is compounded by the competitive pressure the West Edge project faces from relatively inexpensive condos available on the open market as well as limitations on demand that were described in an earlier section of this report.

Home Purchase Financial Assistance

With increasingly strict mortgage underwriting standards and the availability of relatively low-priced homes on the market, down payment assistance programs have become more crucial than ever. The Human Resource Development Council operates a down payment assistance program as part of their “Road to Home” program that is funded through State allocated HOME funds as well as a variable portion of mil levy dedicated to affordable housing by the City of Bozeman on an annual basis.

The State of Montana currently has \$1.3 million in HOME funds allocated for down payment assistance and home rehabilitation. There are currently only two organizations in the State who can access this funding, of which HRDC is one. This suggests that there will be ample supplies of funding to provide

direct assistance for existing homes in Bozeman. The maximum loan amount for HOME funds is \$30,000 and City funds are capped at \$10,000 per household. While only one down payment assistance loan was made in the Bozeman during 2011, HRDC anticipates that they will assist 18 to 21 families in their tri-county service area in 2012, with approximately half of those—or about 10—receiving second mortgage loans to help buy homes within the City of Bozeman.

Market data indicates that the potential for helping more low-income families attain affordable homeownership through down payment assistance loans and pre-purchase counseling is much higher, given the number of affordable homes on the market. In markets similar to Bozeman, down payment assistance and counseling programs are finding very strong pent-up demand—for the very fact that mortgage financing is much harder to obtain than it was a few years ago. Effective homebuyer assistance programs can help overcome these barriers.

The existence of robust home purchase assistance programs can be a major incentive for increases of affordable home construction. Several builders interviewed for this study mentioned that this kind of assistance could help increase their construction and sales rates. This added construction activity can also marginally increase local job creation.

As described in Section 4 of this report, there are sufficient numbers of homes currently on the market that are affordable to families with incomes at or above 65% of area median income. For this group, what is needed is help in financing closing costs and a portion of the down payment, already as low as 3.5% with FHA loans and 5% for other loans that can be sold by local lenders to the secondary markets.

This kind of assistance generally requires a second mortgage of around \$5,000 to \$7,500 per client, and would be offered at 0% interest, with no monthly payments and the principal due only upon resale. To assist families with lower income, larger “gap financing” loans are needed. According to the calculations of this study, families at 55% of median income need somewhere in the range of \$20,000 in assistance to access market rate product, with larger families needing four-bedroom homes requiring as much as \$45,000 in assistance.

In general, the current market points to potentially large benefits of making smaller down payment assistance amounts in the \$7,500 range aimed at closing costs and meeting minimum down payment requirements. A key policy question for the HRDC—and the City’s housing plan—is “how low to go” in terms of income targeting for homeownership programs. Given that there are currently ample sources of federal HOME funds for down payment assistance, providing gap financing for households with incomes as low as 50% or even 45% of area median income may be advisable in the short term. It may not be feasible to continue in the long term if home prices (and gaps) increase and federal funding sources are reduced in line with current trends.

Homebuyer Counseling

HRDC's "Road to Home" program was started in 2003 and shows a high level of development and comprehensive range of services for its eight years of existence. HRDC is a HUD-approved housing counseling organization that provides one-on-one housing counseling as well as HUD approved homebuyer-training classes. Classes are offered 12 times a year—10 of them in Bozeman. Because HRDC is one of the only homebuyer education programs in area, many people travel from around the region to attend classes in Bozeman. These classes serve over 140 individuals a year, approximately 30% of which are residents of Bozeman.

Homebuyer counseling is carried out by one full-time housing counselor along with periodic counseling provided by the program director, equivalent to an additional quarter-time staff person. In 2011, 357 individuals received pre-purchase counseling, of which 116 were residents of Bozeman.

Habitat for Humanity provides limited homebuyer counseling activities such as income qualification services, and financial literacy classes provided by Love INC, a collaborative of local church congregations that leverage a range of social services through their congregation members. Habitat utilizes HRDC's homebuyer education program for its clients. This is a lower volume operation than HRDC, since Habitat aims to qualify three to four new homebuyers in a given year.

HRDC staff points to a downward trend in participation in both counseling and homebuyer education. But with record low interest rates and large amounts of affordable product on the market, this is an especially opportune time for low-income families to access homeownership. The decline in participation could point to a need for more robust homebuyer program marketing and outreach, not just among potential program participants in the wider community, but also internally through HRDC rental program, as well as through real estate professionals such as lenders and Realtors who can be an invaluable source of referrals.

Affordable Rental Housing Construction

The City of Bozeman has not seen any below-market-rate rental development since 2005. For the next several years, the community experienced a very rapid growth trend in the economy and housing construction, which then reversed itself. Very low vacancies in federally assisted rental housing, compounded by student housing pressures and reductions in the number of people working, all suggest a very high level of need for construction of additional below-market-rate and low-market-rate rental housing. While there has been one Low Income Housing Tax Credit (LIHTC) project application since 2005, it did not score well enough to be awarded credits.

Prior to 2006, 505 units of affordable rental housing had been developed in 11 projects through the LIHTC program with an additional 24 units being developed by HRDC through other sources. There were five primary developers and in two of the projects HRDC acted as the non-profit sponsor. Based on the relatively small number of below-market-rate rental units versus the needs, affordable rental housing is the highest affordable housing priority in Bozeman.

Housing for Homeless People

Services for homeless individuals in Bozeman are growing steadily and have a high level of coordination. As is the model in many communities, the Greater Gallatin Homeless Action Committee meets regularly to coordinate services for homelessness among the major regional providers.

Family Promise of Gallatin Valley is a collaboration of 21 religious congregations that provide overnight shelter in local churches, along with a day center with employment, childcare and other resources. This program has the capacity to house four families, up to 12 individuals, for a period of up to 90 days. In addition, Family Promise has over 1,400 trained volunteers available to assist families in their transition to more stable living situations. Family promise has also recently developed a transitional housing unit with four beds that is located in the basement apartment of their day center. This conversion was completed in conjunction with Haven. In the coming year, Family Promise would like to develop a revolving fund for security deposits which they feel will help move people through emergency shelter more quickly. In addition they highlighted the need for more affordable rental development near public transportation and employment centers, as well as the need for more transitional housing.

HRDC also has a very well developed “Home to Stay” homelessness prevention and assistance program. “Home to Stay” dedicates a majority of its programmatic energy towards homeless prevention, although staff relates that the proportion of placement services have recently spiked with increases observed in both families and individuals needing emergency housing assistance. Currently, approximately 60% of program activities are dedicated to prevention while 40% are dedicated to placement of homeless individuals. As part of this program, HRDC operates a seasonal “warming center” with 24 bunks that is open from Thanksgiving through the end of March. This facility is well used but has yet to reach capacity.

As part of the Continuum of Care grant, HRDC was recently awarded eight transitional rental vouchers which families may use for up to a year. HRDC holds the initial lease for the property which is then assumed by the resident family. This model allows the family to stay in place at the end of the assistance period. HRDC generally works to place buyers in affordable rental projects to enhance the long-term sustainability of the housing situation.

HRDC has also raised funds to rehabilitate the Amos House, a former men’s shelter into dormitory style transitional housing that will serve eight women and eight men at a time. Once operating, this will serve as many as 34 individuals a year and fill a critical gap for “non-specialized” transitional housing. HRDC is currently delaying the completion of this project until operational funding is secured.

“Home to Stay” also includes counseling support and case management services. As part of the program, clients have access to a revolving assistance fund that loans stable families with a capacity to pay monthly rent, small amounts to cover security deposits. Loans are paid back at a rate of between \$10 and \$20 a month. This very low-cost mechanism is especially effective at moving people out of emergency shelter without putting a burden on dedicated transitional housing resources.

One segment of the homeless population that does not have any specific support organization dedicated is youth. While HRDC does allow older youth to stay at the warming center, there is no youth-specific shelter in the Bozeman area. HRDC staff related that there was not a large demand for youth homeless services, although they do receive a fair number of referrals from the schools. Most youth are referred to third party organizations that offer youth development and housing services. In addition they utilize a network or informal foster placements. To the extent possible, youth are referred into HRDC's limited youth development program, which helps with job training, placement and GED education.

Housing for Victims of Domestic Violence

Haven domestic violence shelter was founded in 1979 and provides confidential shelter, crisis intervention, support, referrals and education. Haven operates a 13-bed, 15-pillow shelter in a building that was donated to the organization in 1981 by the City of Bozeman. In the previous year, they served 790 unduplicated clients for a total of 2679 shelter nights, a 23% increase year to year. Unlike other emergency shelters in Bozeman, Haven observes a seasonal variation of demand for services with the peak occurring during the summer months when the organization often is at capacity and has to refer clients to services outside of Gallatin County.

Haven is currently in the process of raising funds to rehabilitate their current facility that was built in 1921. The building has major structural problems, having been constructed on a rubble stone foundation, and it also has substandard electrical wiring and lacks handicapped accessibility features. The current facility is limited to serving small household units of women, daughters and younger sons. It does not house males over the age of 12 or larger households.

Special Needs Housing, Behavioral Health

There are several organizations in the Bozeman area that provide housing services for the people suffering from behavioral health issues. Western Montana Mental Health Center (WMMHC) has recently completed six studio apartment transitional units, bringing their total number of units to ten all situated on a five-acre parcel of land donated by Deaconess Hospital.

The project benefited from infrastructure that was completed as part of the larger development and the City provided low-interest gap financing for the project. The combination of land, provision of infrastructure and low-interest financing were critical factors in making this project financially feasible. WMMHC staff related that they did not have the resources or organizational capacity to complete another stand-alone project in Bozeman, but would be open to a collaborative partnership for further transitional housing development, which they see a great need for.

Service for the developmentally disabled and those with traumatic brain injuries are provided by REACH, who has been providing services in Bozeman for 37 years. REACH provides a suite of vocational and

residential services including assisted in-home care, transitional housing through two apartment complexes which are staffed during the day and evenings, and four group homes that serve up to 25 individuals two of which provide intensive 24-hour services. REACH has developed 6 new beds of transitional housing at their North Tracy site in the last two years, but these were replacements of existing units and did not increase their overall capacity.

8. Affordable Housing Price Points And Gaps In Housing Stock

For this study, affordable housing price points are calculated in relation to percentages of “area median income” as calculated and annually updated by HUD. The methodology is used because housing assistance programs in Bozeman, as nationwide, use these benchmarks to determine eligibility for assistance—and in some cases to determine the amount of assistance needed on a needs-tested basis.

Rental Housing Affordable Price Points and Gaps

Figure 27 shows various levels of area median incomes (AMIs) by household size. Figure 28 provides a calculation of affordable rental rates based on those calculations and the commonly used standard of 30% of income being the maximum affordable amount to pay for rent.

When compared to rental rates in the Bozeman market, it is apparent that there are affordability gaps for households at or below 40% of area median income, since our survey of rents indicated minimum rents of \$475 to \$491 for one- to three-bedroom units.

While detailed market data is not available for Bozeman’s rental housing stock, this study’s small-sample survey indicated that affordably-priced and subsidized rentals are in scarce supply for households with incomes below 50% of area median income.

Figure 27. Incomes by HUD AMI Levels for Bozeman, by Household Sizes

% of Median	Number of Persons in Household:					
	1	2	3	4	5	6
10%	\$4,670	\$5,340	\$6,010	\$6,670	\$7,210	\$7,740
20%	\$9,340	\$10,680	\$12,020	\$13,340	\$14,420	\$15,480
30%	\$14,010	\$16,020	\$18,030	\$20,010	\$21,630	\$23,220
40%	\$18,680	\$21,360	\$24,040	\$26,680	\$28,840	\$30,960
50%	\$23,350	\$26,700	\$30,050	\$33,350	\$36,050	\$38,700
65%	\$30,355	\$34,710	\$39,065	\$43,355	\$46,865	\$50,310
80%	\$37,350	\$42,700	\$48,050	\$53,350	\$57,650	\$61,900
95%	\$44,365	\$50,730	\$57,095	\$63,365	\$68,495	\$73,530
110%	\$51,370	\$58,740	\$66,110	\$73,370	\$79,310	\$85,140
125%	\$58,375	\$66,750	\$75,125	\$83,375	\$90,125	\$96,750

Figure 28. Affordable Monthly Rent at 30% of Income

% Median	Number of Persons in Household:					
	1	2	3	4	5	6
10%	\$117	\$134	\$150	\$167	\$180	\$194
20%	\$234	\$267	\$301	\$334	\$361	\$387
30%	\$350	\$401	\$451	\$500	\$541	\$581
40%	\$467	\$534	\$601	\$667	\$721	\$774
50%	\$584	\$668	\$751	\$834	\$901	\$968
65%	\$759	\$868	\$977	\$1,084	\$1,172	\$1,258
80%	\$934	\$1,068	\$1,201	\$1,334	\$1,441	\$1,548
95%	\$1,109	\$1,268	\$1,427	\$1,584	\$1,712	\$1,838
110%	\$1,284	\$1,469	\$1,653	\$1,834	\$1,983	\$2,129
125%	\$1,459	\$1,669	\$1,878	\$2,084	\$2,253	\$2,419

That assumption is borne out by the extremely low vacancy rates in subsidized rental properties in Bozeman. Rental rates in a group of those properties are as high as \$490 for one-bedroom apartments and \$695 for three-bedroom apartments—and the properties are experiencing exceptionally high occupancy rates of 97% to 98% with very little turnover.

For-Sale Housing Affordable Price Points and Gaps

Figure 29 below indicates affordable housing price points for households of various sizes at different levels of area median income. We assumed that homeownership is feasible for most families at 50% of area median income but less so below that level—except in special homeownership support programs such as Habitat for Humanity’s. Figure 31 calculates the affordability gaps, using the data in Figures 29 and 30. The assumed “low-end” home prices come from Section 4 of this report, which estimated typical asking prices of lower-cost homes listed in the Multiple Listing Service. Figure 30 shows assumptions about matching household sizes with typical numbers of bedrooms required.

Figure 29. Home Prices Affordable at AMI Levels Per Affordability Analysis						
% Median	Number of Persons in Household:					
	1	2	3	4	5	6
50%	\$66,346	\$80,713	\$94,699	\$108,996	\$114,377	\$125,717
65%	\$96,456	\$115,226	\$133,429	\$152,053	\$161,024	\$182,639
80%	\$127,818	\$151,872	\$174,800	\$212,646	\$220,240	\$242,011
95%	\$173,263	\$205,869	\$231,831	\$263,951	\$275,796	\$301,589
110%	\$209,147	\$246,902	\$278,013	\$315,204	\$331,198	\$361,064
125%	\$245,032	\$287,935	\$324,194	\$366,457	\$386,601	\$420,539

Figure 30. Assumed Appropriate Bedroom Sizes of Homes and "Low-End" Prices						
BRs assumed	Number of Persons in Household:					
	1	2	3	4	5	6
	0-1BR	2 BR	2 BR	3 BR	4 BR	4BR
	\$97,000	\$97,000	\$130,000	\$130,000	\$175,000	\$175,000

Figure 31. Home Purchase Price Gaps Based on Assumptions Above						
% Median	Number of Persons in Household:					
	1	2	3	4	5	6
50%	\$30,654	\$16,287	\$35,301	\$21,004	\$60,623	\$49,283
65%	\$544	\$0	\$0	\$0	\$13,876	\$0
80%	\$0	\$0	\$0	\$0	\$0	\$0
95%	\$0	\$0	\$0	\$0	\$0	\$0
110%	\$0	\$0	\$0	\$0	\$0	\$0
125%	\$0	\$0	\$0	\$0	\$0	\$0

The affordability gap is calculated as the difference between the home prices that households at various income levels can afford versus the typical low-end home prices.

Needs for Ownership Housing

This affordability analysis indicates that prices of homes in the current market are generally affordable to households with incomes at or above 65% of area median income. At 50% of area median income, the affordability gaps become significant. If home prices or interest rates start increasing, mortgage assistance will be needed and/or regulatory changes or incentives to builders to provide more homes for buyers with incomes at 65% to 80% of area median income—as well as increased efforts to assist homebuyers with incomes under 65% of area median income.

For example, the analysis indicates an ongoing need for three-bedroom homes priced below \$152,000 and two-bedroom homes priced below \$133,000. There is currently an adequate supply of for-sale condos in this price range and a few detached older homes, but without future subsidized home construction or incentives for builders to provide very low-cost homes, this supply will likely be depleted in the near future.

Needs for Rental Housing

There is a need and an apparent acute need for rental housing affordable to households with incomes at or below 40% of area median income. This translates to rents at or below approximately \$470 for one-bedroom units, \$600 for two-bedroom units and \$670 for three-bedroom units.

Market data is less clear about whether there is a shortage of rental housing at higher price points, but what data is available indicates a tightening of the rental housing supply. Therefore, the City's should consider including elements in its pending affordable housing plan that encourage construction of rental units, with a particular emphasis on production of rental units affordable to households between 30% of area median income and 50% of area median income. This translates to \$350 to \$580 rents for one-bedroom units, \$450 to \$750 for two-bedroom rents, and \$500 to \$850 for three-bedroom units.

Interpretation of These Priority Needs

These definitions of current priority housing needs should not be interpreted to mean that there is a hard dividing line between “affordable housing” and other housing in the Bozeman market. This study has highlighted the incomes and price levels below which Bozeman households are likely to have greater than normal difficulties in finding affordably priced housing. But homebuyers with incomes just above 65% of area median income are faced with limited choices in buying homes, as are renters with incomes just above 50% of area median income. Therefore, it is recommended that the City consider adopting policies that encourage construction of low- and moderate-priced housing, while focusing its strongest support, regulations and incentives on the income groups that generally face affordability gaps.

As Bozeman's economy starts improving, the affordability threshold will inevitably move up as housing costs at the low end of the market increase. A spreadsheet and methodology to update these price points and affordability gap calculations will be provided to the City separately from this report.

9. Indicated Programmatic and Regulatory Initiatives

The housing needs described in this report indicate the following potential programmatic priorities for nonprofits, for-profit developers and the City. These are not in priority order, and are suggested for consideration during the process of drafting a new affordable housing plan.

- Subsidized construction of for-sale housing. Projects sponsored by nonprofits should continue, but at a measured pace until existing inventories are absorbed.
- Assistance for purchasing lower-priced market-rate homes. A reduction in home prices generally makes this an opportune time to step up pre-purchase counseling and down payment assistance programs. This can not only help lower-income families attain affordable homeownership, but it can help encourage builders to construct more lower-priced homes by adding to overall demand.
- Construction of new rental housing. Development of rental housing using the federal Low Income Housing Tax Credit (LIHTC) program should be a high priority, given that this program has provided rents in affordable to Bozeman households from 40% to 60% of area median income. LIHTC is the major federal incentive program for building affordable rental housing. Finding a way to include some very low rents—at 30% of area median income—should be investigated. Piggybacking federal HOME and CDBG subsidies is a typical way of achieving this goal. City financial incentives might also be considered. The City might also consider setting formal criteria for the types of LIHTC projects that it endorses for federal subsidies.
- Construction of housing for special populations. Given the unmet needs of special populations for affordable and supportive housing options, construction or acquisition and rehab of more residential properties should be a priority. Construction is constrained by the limited availability of governmental grants and private donations, but these resources should still be sought out. Limited amounts of federal grants are still available for very low-income seniors, disabled people, recently homeless people, victims of domestic violence and those with other special needs.
- Workforce Housing Ordinance and possible regulatory changes. The needs study indicates that the City's Workforce Housing Ordinance should not be reinstated at this time due to the softness of the real estate market, technical issues with the ordinance and administrative costs. Reinstatement of a revised ordinance could be considered as the housing market strengthens. In the meantime, the City may wish to consider enacting a set of incentives for builders to construct affordable, for-sale homes and rental units. Some incentives could simply provide builders with more flexibility in responding to market demand—for example, allowing construction of detached homes on small but adequately-sized lots.

- Re-platting subdivisions. If existing subdivisions are re-platted, as some builders propose, and the City agrees, some incentives and requirements for construction of affordable homes and rental units could be retained. Donation of house lots or sub-tracts for affordable home or rental construction is among the options to be considered.
- Impact fees. The City might consider allowing, in some form, deferrals or reimbursement of impact fees as an additional incentive to produced discount-priced housing for lower-income buyers, whether or not the Workforce Housing Ordinance is reinstated. Stronger and more costly incentives such as these should be tied to homes with income, price and rent restrictions.
- Possible policies and actions regarding mobile home parks. Nonprofits might consider starting a concerted program of helping low-income families replace, repair and weatherize older, substandard mobile homes. The City could consider actively encouraging the preservation of mobile home parks inside and outside Bozeman in order to prevent possible losses in the stock of affordable housing available to Bozeman residents and its workforce residing outside Bozeman. Mobile home parks adjacent to Bozeman may apply for water and sewer extensions, which will be considered in light of the factors for approval described in Chapter 40, Division 3, of the Municipal Code.
- Regular Survey of Rental and Vacancy Rates. Given the lack of detailed and reliable data for the rental sector as well as the dynamic nature of the overall market for rental housing, the City should consider funding an annual or periodic rental survey to determine average rent levels and vacancy rates by bedroom sizes of units, to indicate where shortages may exist. This data would be helpful for informing policy decisions as well as assessing the need for both subsidized and market rate rental housing. This data could also be essential information for the Citizens Affordable Housing Advisory Board when reviewing requests for municipal support for LIHTC projects.

Appendix A: List of Individuals Interviewed or Who Provided Data for Study

Bruce Brensda	Montana Housing – Low Income Housing Tax Credit Program
Dana Burkett	Human Resource Development Council
Dennis Carlson	Gallatin Association of Realtors
Gloria Edwards	Family Promise of Gallatin Valley
Heather Grenier	Human Resource Development Council
Dab Dabney	Farmhouse Partners
Shawn Holm	Builder, Norton East Ranch
Patty Kent	Western Montana Mental Health Center
Anders Lewendal	Bozeman Custom Homes
David Magistrelli	Habitat for Humanity of Gallatin County
Mary Martin	Human Resource Development Council
Kristy McFetridge	Haven
Tim McHarg	City of Bozeman, Planning Dept.
Tracy Menuz	Human Resource Development Council
Ron Ostermiller	Big Sky Western Bank
Cheryl Ridgely	Bozeman Deaconess Hospital
Phil Rotherham	Rotherham Construction
Jeff Rupp	Human Resource Development Council
Michael Stewart	Land Equity Partners/Sunrise Homes
Rob Tallon	REACH
Dick Walter	American Bank, Bozeman

Appendix B - Affordable Housing Outcomes in Bozeman Area

	Sponsor	Service Area	2011 Outcomes	Total Provided To Date or Currently
HOMEOWNERSHIP OUTCOMES				
New construction of homes	HRDC	City	13	56
New construction of homes	Habitat	City	2	61
Acquisition and sales of home	HRDC	City	2	17
Homeowner rehab assistance	HRDC	Tri-County	unavailable	37
Down payment assistance loans	HRDC	Tri-County	3	107
Weatherizations completed	HRDC	Tri-County	247	678
Pre-purchase counseling cases	HRDC	Tri-County	357	2136
Foreclosure counseling cases	HRDC	Tri-County	90	290
RENTAL/SPECIAL NEEDS OUTCOMES				
LIHTC rental housing built - seniors	HRDC	City		161
LIHTC rental housing built - families	Multiple	City		344
Other rental housing built	HRDC	City		24
Transitional housing provided	Family Promise/Haven	City	4	4
Transitional housing provided	HRDC	City	2	4
Transitional - behavioral health	WMMHC	City	6	10
Transitional - developmental disabilities	REACH	City		16
Supportive Housing - developmental disabilities	REACH	City		25
Emergency shelter/warming center beds	HRDC	City	24	24
Emergency shelter beds - families	Family Promise	City		12
Domestic violence shelter beds	Haven	City		13
OTHER OUTCOMES				
Section 8 rent subsidies	HRDC	City	10	273
Transitional rent subsidies	HRDC	City	8	8